

**CENTRAL AREA PUBLIC DEVELOPMENT AUTHORITY**  
**King County, Washington**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. The Members Of The Board And The Paid Staff Of The Central Area Public Development Authority Should Prepare And File Statements Of Economic Interest

The members of the board of directors and the paid staff of the Central Area Public Development Authority (CAPDA) did not complete or file the required Statements of Economic Interest during 1992.

The CAPDA Charter, Article XV, Section 5, states in part:

Uncompensated officials and employees and designated compensated employees shall annually by April 15 file statements of economic interest as required under Seattle Municipal Code 3.110.570.

The Seattle Municipal Code (SMC) 3.110.570 states in part:

A. All compensated corporate [CAPDA] employees holding executive, professional or administrative positions . . . and all uncompensated officials and employees shall, within two (2) weeks of being appointed or hired, and thereafter annually by April 15, file with . . . [CAPDA] a written statement sworn as to its truth and accuracy . . . .

The information to be included in the statements of economic interest addresses personal and business interests and property ownership that relate to CAPDA.

SMC 3.110.570 further states:

C. [CAPDA] shall retain the statements and make them available for public inspection upon request for a period of not less than four (4) years following the separation from [CAPDA] of the person filing the statement.

D. Such statements also shall be filed promptly by [CAPDA] with the City Clerk.

Noncompliance with this requirement withholds information to which the public is entitled. It hinders effective oversight by the city of the extracurricular activities of CAPDA's board and paid staff. The public and the city are denied the opportunity to scrutinize the information provided in the Statements of Economic Interest and explore possible conflicts of interest.

Certain conflicts of interest have been alleged to have existed during 1992 in relation to a CAPDA staff member. (Refer to Report No. 55196 and to Finding 5 included herein.) Had an accurate Statement of Economic Interest been completed and filed timely by this

employee, the alleged conflicts of interest might have been averted.

Heretofore, CAPDA has been in compliance with this requirement. Noncompliance in 1992 appears to have resulted from personnel issues that disrupted the work flow sufficiently to prevent the completion of this standard annual reporting and filing.

We recommend the following:

- a. Establish a tickler system that identifies all reporting requirements and due dates.
- b. Identify a primary staff person to be responsible for monitoring all reporting due dates and ensuring the timely filing of all reports.
- c. Identify a secondary staff person to assume responsibility for this function in the absence of the primary staff person.
- d. Develop a written policy and procedure for complying with all reporting requirements.

2. The Central Area Public Development Authority Should Institute Proper Cash Receipting Procedures

The Central Area Public Development Authority does not use proper cash receipting procedures. Historically, the receptionist has recorded cash receipts in an incoming log. However, this procedure appears to have been abandoned. CAPDA staff was unable to locate a log of 1992 receipts.

During prior audits, we have recommended in our management letter the institution of proper procedures. We deem the further disintegration of the cash receipting function unacceptable.

An entity's control procedures should include the use of adequate documents, records, and procedures to help ensure the proper recording of transactions and events. Procedures should provide reasonable assurance that specific objectives will be achieved. Procedures related to the cash receipting function should provide reasonable assurance that:

- a. All receipts are recorded accurately and timely in the entity's accounting records.
- b. All receipts are deposited timely and intact in the entity's bank account.
- c. All receipts of any given period can be readily identified.

The absence of adequate procedures can result in the following:

- a. Delays in recording cash receipts into the accounting records.
- b. Loss or misappropriation of cash receipts.
- c. Alteration of cash receipt transactions.

CAPDA does not have daily cash receipts. Heretofore, CAPDA's primary funding source was the City of Seattle, from which it received monthly grant remittances. Other receipts were nominal and/or sporadic. However, these facts do not eliminate its responsibility to ensure that transactions are recorded accurately and timely. During our prior audit, staff agreed to implement our cash receipting recommendations. However, during 1992, staff turnover was 100 percent. The new staff was unaware of our management letter recommendations.

We recommend the following:

- a. Institute the use of a three-part, preprinted, prenumbered cash receipt form, the design of which should include:
  - (1) Date
  - (2) Payor
  - (3) Amount
  - (4) Description of receipt
  - (5) Account code
  - (6) Mode of payment (i.e., check, cash, wire)
  - (7) Signature of person accepting the receipt
- b. Maintain a numerical file of all cash receipts issued during the fiscal period.
- c. Segregate the cash receipting function from the recordkeeping function.



3. The Central Area Public Development Authority Should Improve The Controls Over Deferred Loan Payments To Contractors

The Central Area Public Development Authority submitted false payment requests on behalf of Homeowners 92-002 and 92-003 to the City of Seattle during 1992.

On behalf of Homeowner 92-002, CAPDA submitted to the City of Seattle the following payment requests:

09/09/92	45% Completion	\$ 9,112.50
10/01/92	90% Completion	9,000.00
11/06/92	100% Completion	<u>4,437.50</u>
	Total	<u>\$22,550.00</u>

On behalf of Homeowner 92-003, CAPDA submitted to the City of Seattle the following payment request:

07/23/92	50% Completion	\$13,050.00
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Through inquiry of City of Seattle staff, CAPDA staff, and the homeowners, it appears that the following irregularities occurred:

Homeowner 92-002:

- a. The homeowner signed payment requests on the advice of the rehabilitation specialist, even though the homeowner knew the work was not completed as stated in the payment request.
- b. The rehabilitation specialist signed the payment requests, despite the homeowner's complaints about the poor quality and incompleteness of the work.
- c. CAPDA's executive director did not sign the request for final payment.
- d. We can find no indication that CAPDA invited DHHS to inspect the property upon project completion.
- e. The City of Seattle issued final payment based on only two of the three required signatures. 1/
- f. The City of Seattle made the final payment (including retainage) without the required verification 1/ that work under permit had been approved by DCLU and/or other appropriate city departments.

Homeowner 92-003:

- a. The homeowner signed a blank request.
- b. The rehabilitation specialist advised the homeowner to sign the blank request to prevent a delay in making the progress payment to the contractor while the homeowner was on vacation.
- c. The work was not 50 percent complete at the time of the request for payment.

- d. The rehabilitation specialist considered the 50 percent progress payment warranted because the contractor had purchased materials and brought them to the homeowner's residence, even though the contractor had not yet installed the materials.

The homeowners' signatures appear on the progress payment requests below the following statement:

I have received the contractor's invoice for \$\_\_\_\_\_ approximately \_\_\_\_% completion. I have inspected and approved the work and request payment to be made.

The rehabilitation specialist's signature appears on the progress payment requests below the following statement:

I have inspected the property and \_\_\_\_% of the work is completed.

It appears that these statements were false. It appears that both the homeowners and the rehabilitation specialist undermined the integrity of the payment system. The current work status on Homeowner 92-002 is 65 percent complete (not 100 percent), with an estimated overpayment of \$8,600. The current work status on Homeowner 92-003 is 10 percent complete (not 50 percent), with an estimated overpayment of \$10,000.2/  
The "Loan Program Guidelines," Section VIII, state:

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1/ The "Loan Program Guidelines" only require the signature of the homeowner and the rehabilitation specialist (Section XI,C,1). However, the required "Verification that work under permit has been approved by DCLU and/or other appropriate city departments." (Section XI,C,3) is inferred from the third signature.

2/ The current CAPDA rehabilitation specialist, in consultation with City of Seattle staff, developed these estimates.

Upon receipt of an invoice for contract work, CAPDA will inspect the work, prepare an inspection report and, in consultation with the homeowner, verify the percentage of work which has been satisfactorily completed.

The homeowner must indicate approval of each pay request by signing. All payments will be by check payable to the applicable payee (contractor, etc.). Normally, only two checks will be issued, excluding payment of retainage, one at 50% completion and one at 100% completion. However, up to three checks may be issued, excluding payment of retainage, on contracts over \$8,000.

Ten percent of each payment request will be held back on all construction projects until lien releases have been received and cleared by CAPDA.

Completion of all work under permit must be approved by appropriate City inspectors before the retainage is paid.

The City may inspect the rehabilitation work at any time, provided reasonable notice is given to the homeowner, the contractor, and CAPDA.

OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, Paragraph C, states in part:

- b. [Costs must] Be authorized or not prohibited under State or local laws or regulations.

The OMB *Compliance Supplement* (revised September 1990), General Requirements, Allowable Costs/Cost Principles provides further guidance. It states in part:

- 9. [Costs must be] Supported by underlying documentation, e.g., . . . vendor invoices . . . and . . . correctly charged as to amount.

CAPDA has a fiduciary responsibility to the homeowners participating in the deferred loan program and to the taxpayers to ensure that benefit is received for all amounts spent. If CAPDA does not meet its fiduciary responsibility, the City of Seattle may terminate CAPDA's administration of the deferred loan program and deny its application for future Community Development Block Grant funding.

Payments made to contractors are charged against the homeowners' deferred loans. The homeowners assume the financial responsibility for the work and have a vested interest in its proper completion.

The following factors appear to have been responsible for these occurrences:

- a. Homeowners deferred to the advice of the rehabilitation specialist.
- b. Too much responsibility was vested in the rehabilitation specialist.
- c. There was inadequate supervision of the work of the rehabilitation specialist.
- d. Homeowner complaints about the rehabilitation work on their homes were not addressed timely by the executive director or board of CAPDA.
- e. Payment requests were processed by the City of Seattle without proper signatures and/or documents.

We recommend the following:

- a. Revise the "Progress Payment Request" form to include a third qualified signatory.
- b. Revise the statement signed by CAPDA staff on the "Progress Payment Request" form as follows:

I have inspected the property and \_\_\_\_\_% of the work is completed, installed and in compliance with the contract specifications.

- c. Before any work begins, ask the homeowner to sign an additional form which states as follows:

I certify that I understand and will comply with the following statements:

- (1) I will personally approve the contractor to whom I award the bid.
- (2) I will not sign a blank payment request.
- (3) I will not approve payment for materials purchased but not installed in my home.
- (4) I will only approve payment for work that is in compliance with contract specifications and installed in my home.
- (5) If any conflicts occur between the contractor and me, I will seek resolution through the following CAPDA representatives in the following order:
  - rehabilitation specialist
  - executive director and/or
  - chair of the credit committee

- d. Revise the "CAPDA Construction Rehab Forms" list to include a new form. This new form should be inserted in the forms list as a new Item 21:

Item 21. DCLU's "Inspection Report" received after project completion.



4. The Central Area Public Development Authority Must Adhere To The Requirements That Contractors Be Licensed And Bonded At The Time Of Bid Opening And Contract Signing

The Central Area Public Development Authority accepted bids from (and counseled Homeowners 92-002 and 92-003 to sign a contract with) an unlicensed contractor.

Bids were opened on June 10, 1992. The contractor signed contracts with Homeowners 92-002 and 92-003 on July 2, 1992, and June 30, 1992, respectively. The contractor's City of Seattle business license and Washington State contractor registration are dated July 17, 1992. The contractor's certificate of insurance and surety bond are dated July 14, 1992.

RCW 39.06.010 states:

Contracts with unregistered or unlicensed contractors prohibited. No agency of the state or any of its political subdivisions may execute a contract with any contractor who is not registered or licensed as may be required by the laws of this state . . . .

RCW 39.08.010 states:

Whenever any . . . body acting for . . . any . . . municipality . . . shall contract with any person . . . to do any work for the . . . body . . . such . . . body shall require the person . . . with whom such contract is made to make, execute, and deliver to such . . . body a good and sufficient bond, with a surety company as surety, conditioned that such person . . . shall faithfully perform all the provisions of such contract and pay all . . . materialmen . . . who supply such person . . . with provisions and supplies for the carrying on of such work . . . .

The "Loan Program Guidelines," Section VI, Item B, states in part:

This contractor must participate in the bid process to be eligible, and his credentials and references must be satisfactory to CAPDA and the City.

Further, CAPDA's established procedures are as follows:

- a. The contractors submitting bids must be qualified before bid opening.
- b. The bids of unqualified contractors are not to be opened.
- c. The executive director or financial specialist is to be present at all bid openings.

The *Code of Federal Regulations*, 24 CFR Subtitle A (4-1-92 Edition), Part 85, Subpart C, Section 85.36, Procurement, states, in part:

(b)(8) Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance and financial and technical resources.

If CAPDA does not enforce proper procedures to ensure that these requirements are met, the following may occur:

- a. Homeowners may sign contracts with contractors who cannot fulfill their

contractual obligations.

- b. CAPDA may process payment requests for substandard work and have no means through which to pursue recovery.
- c. Homeowners may sue CAPDA for damages.
- d. The City of Seattle may terminate CAPDA's administration of the Deferred Loan Program.
- e. The City of Seattle may terminate CAPDA's CDBG funding.

The rehabilitation specialist who guided the bidding and contracting process for the deferred loan program appears to have circumvented established procedures and to have knowingly violated the law. In addition, it appears that there was insufficient oversight of the bid acceptance, opening, and award processes.

We recommend the following:

- a. Bid openings only occur in the presence of the executive director or financial specialist or other designated staff or board member, in addition to the rehabilitation specialist.
- b. Revise the "CAPDA Construction Rehab Forms" list to include a new form. This new form should be inserted in the forms list as a new Item 10. The current forms listed as Items 10 through 19 should be changed to Items 11 through 20.

Item 10 should be described as follows:

Item 10. Confirmation form that all contractors submitting bids are licensed, insured and bonded prior to bid opening.

5. The Central Area Public Development Authority Must Adhere To The Requirements That Bids Be Awarded To The Lowest Bidder Or To The Contractor Selected By The Homeowner

The Central Area Public Development Authority awarded bids on behalf of Homeowners 92-002 and 92-003 to neither the lowest bidder nor the homeowners' selection.

Through inquiry of City of Seattle staff, CAPDA staff and the homeowners, it appears that the rehabilitation specialist accorded preferential treatment to a contractor who bid on projects for Homeowners 92-002 and No. 92-003. The homeowners relied on the advice of the rehabilitation specialist. The rehabilitation specialist did not base his advice on the lowest responsive bidder, qualifications of the contractor or preferences of the homeowners. Rather, the rehabilitation specialist had a beneficial interest in the awards, as the contractor was a business partner of the rehabilitation specialist.

The "Loan Program Guidelines," Section VI, Item B, state:

CAPDA shall conduct and certify a competitive bid process to select a contractor to perform the work. The homeowner shall select the lowest responsive bidder. However, the homeowner may select a contractor other than the low bidder, as long as the homeowner's selection is within 10% of the cost estimate prepared by CAPDA and as long as the construction costs are within the maximum loan approved. This contractor must participate in the bid process to be eligible, and his credentials and references must be satisfactory to CAPDA and the City.

The *Code of Federal Regulations*, 24 CFR Subtitle A (4-1-92 Edition), Part 85, Subpart C, Section 85.36, Procurement, states in part:

(b)(3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

(iii) The employee . . . has a financial or other interest in the firm selected for award.

According preferential treatment to a contractor subverts the bid award process. Preferential treatment denies full and open competition, which is the guiding force of the public bid process. The potential consequences of preferential treatment include the following:

- a. Contracts may be awarded to unqualified contractors.
- b. CAPDA staff involved in the bid process may enter into personally beneficial arrangements with contractors to the detriment of CAPDA and the homeowners.
- c. Homeowners may be dissatisfied with the contractors and/or the work product.
- d. Qualified contractors may be denied awards.

- e. CAPDA's reputation as a fair and equitable employer may be compromised.
- f. Qualified contractors may discontinue bidding on CAPDA projects.
- g. The City of Seattle may terminate CAPDA's administration of the deferred loan program.
- h. The City of Seattle may terminate CAPDA's CDBG funding.

It appears that there was insufficient oversight of the activities of the rehabilitation specialist. In addition, it appears that homeowners deferred to the advice of the rehabilitation specialist in order to expedite the rehabilitation work on their homes.

We recommend that CAPDA improve its bid award procedures to include the following:

- a. A separate, signed statement by the homeowner (apart from the contract) that the homeowner has interviewed and approved the contractor to whom the homeowner is awarding the bid.
- b. A signed statement by the rehabilitation specialist and the executive director of CAPDA that the contractor has been interviewed and approved by the homeowner.
- c. A signed statement by the rehabilitation specialist and the executive director of CAPDA that neither has a beneficial interest in the award.
- d. A written explanation of the reasons for awarding the contract to other than the low bidder.